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SUBJECT: AZERBAIJAN CREATES NEW SPECIAL ECONOMIC ZONES

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¶1. (SBU) Summary: Azerbaijani President Aliyev signed a decree March 6 creating Special Economic Zones (SEZ). The decree aims to create favorable conditions for Azerbaijan's economic development, streamline more investments in high-priority sectors, create new jobs, apply modern management practices and competition techniques, and promote local goods and services. According to Minister of Economic Development (MED) Babayev, the first SEZ will focus on the development of a regional energy services hub. The MED plans to present draft legislation to the Cabinet of Ministers within 30 days. The creation of SEZ's, long urged by the IFIs and multinational energy companies, is a key step in the diversification and strengthening of Azerbaijan's economy. Full text of the Presidential decree is in para 8. END SUMMARY.

¶2. (U) In a March 6 Presidential Decree, Azerbaijan took the first step toward creating new Special Economic Zones (SEZ). With an eye toward boosting foreign and domestic investment in the local economy, the GOAJ plans to create a privileged tax and customs regime and special currency regulations in the Special Economic Zones. There are also certain special soft conditions that will be applied on customs control procedures, operations of customs check-points, documentation of goods, and simplification of vehicles and individuals' admission at the Special Economic Zones.

¶3. (SBU) In a March 10 meeting, Minister of Economic Development (MED) Heydar Babayev told the Ambassador that the GOAJ planned to begin with just one Special Economic Zone, in a location still to be determined, focused on energy services. Babayev said he believes that Azerbaijan has the experience and capacity to serve as a regional hub for energy support services, with a goal of exporting services to Turkmenistan and Kazakhstan. Babayev added that his Ministry was in the process of drafting legislation to implement the new Presidential decree and expected to have draft legislation ready within 30 days.

¶4. (SBU) Deputy Minister of Economic Development Mikhail Jabbarov, who is leading MED's efforts on the Special Economic Zones, later told emboffs that the EBRD had provided assistance in the development of Azerbaijan's SEZ concept. According to AzPromo (the Azerbaijan Export-Import Foundation, part of MED), the GOAJ also has discussed the SEZ concept and international best practices with other IFIs, and also with the AmCham, British Business Group, TUSIAB (Turkish Businessmen Union), and DAWF (German-Azerbaijan Economic Assistance Union), a welcome sign of deeper GOAJ engagement with the private sector. Jabbarov told us he would welcome input and possibly technical assistance from USAID as MED further develops the SEZ concept.

¶5. (SBU) Anar Guliyev, Director of the Investment Promotion Section

at AzPROMO, separately told us that domestic investment is increasing and there is a strong need for stimulation of investments in non-oil sectors, including agriculture, tourism, transport and communications, heavy and light industries, petrochemical industry and other fields. According to Guliyev, the new Special Economic Zones could potentially help to attract foreign investment in the food processing industry, construction, IT, banking and other services sectors. Guliyev believes that the favorable conditions within the Special Economic Zones will develop and increase foreign direct investment in the non-oil sectors.

16. (SBU) Alakbar Mammadov, Chairman of the Azerbaijan Entrepreneurs (Employers') Confederation, said that existing laws "On Protection of Foreign Investments" (adopted in 1992) and "On Investment Activity" (adopted in 1995) were not effective in bringing more investment to Azerbaijan. Mammadov indicated that it would be more helpful if the Special Economic Zones allowed tax reduction at the amount of the re-invested funds. He also noted that there appears to be a demand for creating special conditions for manufacturing industries, as well as for leasing services sector.

17. (SBU) COMMENT: Creation of Special Economic Zones has been strongly recommended by the IMF, World Bank and other IFIs as a key step in the diversification and strengthening of Azerbaijan's economy. It also has been urged by multinational energy services companies, who see SEZ's as a way not only to increase their business but also to keep Azerbaijan's well-trained energy services labor force employed as construction on the current Production Sharing Agreement projects winds down. This is an important development that we will continue to monitor. End Comment.

18. (U) Begin text of SEZ Presidential Decree.

#### DECREE OF THE PRESIDENT OF THE REPUBLIC OF AZERBAIJAN ON CREATION OF SPECIAL ECONOMIC ZONES IN THE REPUBLIC OF AZERBAIJAN

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Nowadays, in a number of countries solution of socio-economic problems, wider and efficient use of scientific-technical achievements and more active participation of these countries in international labor division is achieved by application of new form of economic action such as economic zones. International experience shows special economic zones have huge impact on economic development of separate territories and countries in whole.

Fruitful conditions have been provided by purposeful actions taken for last years in the Republic of Azerbaijan to the establishment of market economy, consistent socio-economic development of country and its integration to international economic relations system. The Republic of Azerbaijan is in the new phase of socio-economic development. Special economic zones can play important role in implementation of strategic programs and projects adopted in connection with this, solution of priority economic and social tasks. Creation of such zones can also stimulate further expansion of foreign economic ties using preferences of suitable geographic and transport position of Azerbaijan.

To achieve solution of issues such as creation of suitable circumstance for development of economy and regions of country, propaganda of investments and directing it to priority spheres, opening of new workplaces, use of modern management experience, introduction of goods and services durable to competition, I decree:

1. Creation of special economic zones in the Republic of Azerbaijan shall be counted purposeful.

2. It shall be defined the state policy on creation and functioning of special economic zones in the country is carried out by Economic Development Ministry of the Republic of Azerbaijan.

3. The Cabinet of the Republic of Azerbaijan shall be assigned within 1 month:

3.1. to prepare and submit to the President of the Republic of Azerbaijan the draft Law of the Republic of Azerbaijan 'On special economic zones';

3.2. together with Economic Development Ministry of the Republic of Azerbaijan to prepare and submit to the President of the Republic of Azerbaijan its proposals on priority directions of creation of special economic zones;

3.3. to prepare and submit to the President of the Republic of Azerbaijan drafts of regulations on respective special economic zones;

3.4. to prepare and submit to the President of the Republic of Azerbaijan its proposals on preferential tax and customs regime, currency adjustment in special economic zones;

3.5. to prepare and submit to the President of the Republic of Azerbaijan the draft simplified rules of documentation of customs control, activity of customs points, goods within special economic zones, regime of access of vehicles and physical persons;

3.6. to solve other issues arisen from this Decree.

14. This Decree comes into force from the day of publication.

Ilham Aliyev,  
President of the Republic of Azerbaijan.  
Baku city, March 6, 2007.

END TEXT

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